

## 1999 Farm Sector Outlook... USDA's 10-Year Baseline Projections... Risk Management Tools... Broccoli Sales... Japan's Rice Import System

### Near-Term Weakness Expected in U.S. Farm Economy

*The stage was set for agricultural prospects to worsen in 1999* when the outlook for U.S. agriculture changed abruptly during 1998. Rising world commodity supplies and weakening international demand last year reduced farm prices and the value of farm exports. The U.S. government reacted with legislation to increase assistance to farmers, which is helping to maintain farm income. In 1999, supplies of most agricultural commodities will remain large, and the outlook for exports remains somewhat pessimistic in the near term. With exports and prices likely to be lower in 1999, farm financial stress will intensify, particularly in the Corn Belt.

Much of the U.S. farm sector will be adjusting to weak demand and large global supplies in the next few years, according to USDA's 10-year baseline projections. Compared with the last few years, agricultural commodity prices are down, the value of U.S. agricultural exports is lower, and net farm income declines. International factors weakening the long-term U.S. agricultural outlook include fallout from the financial crisis in Asia and economic contraction in Russia. In the second half of the baseline, improved economic growth in developing regions supports gains in U.S. ag exports, leading to rising nominal market prices, gains in farm income, and increased financial stability in the U.S. farm sector.

### Boom & Bust: Will Agricultural History Repeat?

*Farm sector conditions* in the 1990's in some respects resemble those of the boom and bust cycle of the 1970's and into the 1980's. Reminiscent are changes in the value of the dollar, the role of agricultural exports, weather-related problems followed by a surge in output, and sustained rises in farmland values and farm indebtedness. But significant differences exist. Although a number of factors could aggravate the current downturn, the magnitude of the contraction could be mitigated by current domestic economic



stability, less pronounced expansion, and more conservative borrowing and lending.

### Managing Risk with Insurance & Pricing Strategies

*Making good risk management choices* requires: 1) understanding the farm's risk environment, 2) knowing how the available risk management strategies work, and 3) selecting the strategy or combination that will provide protection that best suits the farm's and operator's circumstances. The principal risk lies in the uncertainty of the revenue generated by the farm. Insurance and forward pricing offer tools to manage risk. The majority of insurance policies sold are: standard yield-based crop insurance, revenue insurance, and revenue insurance with replacement coverage protection. Combining insurance with forward pricing—e.g., a cash forward sale, a futures hedge, or a put option hedge—generally results in lower risk than either alone.

### Rice Tariffication in Japan

*Japan changes its rice import system* on April 1, 1999 to allow imports outside the existing minimum access quota, but annual increases in the quota will be less than without the April 1 change. Japan's

minimum access quota for rice imports, implemented in 1995 under GATT's Uruguay Round Agreement on Agriculture (URAA), ended the effective ban on rice exports to Japan. The tariff on imports within the minimum access quota is zero, but the URAA allows Japan to add a markup to these imports. Imports above the minimum access amount will be subject to a tariff, but there is virtually no chance that any rice paying the over-quota tariff could compete with Japan's domestic production. U.S. rice exports to Japan will likely be lower than they would have been without tariffication, hitting California producers hardest.

### Broccoli: Super Food For All Seasons

*Broccoli has again caught the interest* of American consumers, after stagnating sales in the early 1990's. Broccoli is regularly identified as the vegetable eaten most often for health reasons, and the introduction of pre-cut and packaged value-added products provides more convenience. Americans consumed 2 billion pounds of broccoli in 1998, about 8 pounds per capita, 34 percent higher than in 1990. The industry boasts farm revenue averaging \$484 million (1996-98), up 24 percent from the previous 3 years. The U.S. retail price for fresh-market broccoli in 1998 averaged \$1.10 per pound, up 27 percent since 1995.

### Food Prices to Post Modest Gains

*The Consumer Price Index for all food* is expected to increase 2-3 percent in 1999, following a 2.2-percent increase in 1998, the smallest since 1993. Food at home is projected to increase 2 to 2.5 percent, while food away from home should increase 2.5 to 3 percent. Overall, lower meat, egg, and coffee and soft drink prices countered higher prices for dairy products, fresh fruits and vegetables, and fats and oils. Although 1999 looks like another year of low food price inflation, uncertainties remain about the ultimate effect of changes in meat exports, increasing consumer demand for high-butterfat products, and high orange and banana prices.